Contracting Speed by 25 Percent, Achieves Positive Return on Investment in Less than One Year

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Jeremy Aber, Senior Legal Counsel for Licensing, BMC Software

Overview

Country: United States
Industry: Enterprise Management Software

Customer Profile
A leading provider of enterprise solutions that empower companies to manage their IT infrastructure from a business perspective, BMC employs 6,800, and reported 2004 revenues of U.S.$1.4 billion.

Business Situation
BMC Software needed to increase the quality and efficiency of its contracting process and help employees comply with best practices for contract negotiation.

Solution
With Microsoft® Partner C-Lutions, BMC deployed a contract process automation and management solution based on Microsoft Office, Microsoft Windows® SharePoint® Services, and other Microsoft technologies.

Benefits
- Contract approvals up 25 percent
- Lost profits recaptured by complying with best practices
- Fast adoption, minimal retraining
- Positive ROI in one year

Founded in 1980, Houston-based BMC Software (BMC) is a leading provider of enterprise solutions that enable companies to manage IT infrastructure from a business perspective. BMC employs 6,800 people worldwide and reported fiscal 2004 revenues of U.S.$1.4 billion. To increase profitability, the company needed to improve quality control of its contracting process and accelerate the contract lifecycle. With help from C-Lutions, a Microsoft Partner, BMC deployed Contract Lifecycle Management, a C-Lutions offering based on Microsoft® collaboration tools including Microsoft Office 2003, Microsoft SharePoint® Products and Technologies, Microsoft Windows Server™ 2003 operating system, and Microsoft Exchange messaging server. Benefits include a 25 percent faster contract approval cycle, recaptured profits due to better standards compliance, and a positive return on investment within one year.

Situation

Founded in 1980, Houston-based BMC Software [NYSE:BMC] is a leading provider of enterprise management software solutions that empower companies to manage their IT infrastructure from a business perspective. With 6,800 employees around the globe, the company's solutions span enterprise systems, applications, databases, and service management. BMC Software reported fiscal 2004 revenues of more than $1.4 billion.

Business Pains

BMC Software's principal revenue source is software licensing contracts governing use of the company's more than 200 solutions and services. These contracts are considerably more complex than the "I Accept" agreements familiar to Internet users when they download a software application. BMC Software has so many different licensing offerings (perpetual, term, subscription, rental, and so forth) and so many products, that BMC Software sales representatives use about 70 standard terms and conditions to construct the first draft of a typical licensing contract. However, because many BMC Software customers have unique needs, sales and legal professionals often negotiate additional provisions in the larger transactions. Satisfying customers while keeping contract terms fair to BMC Software can be a challenge. Darrin Poole, IT Director at BMC Software, explains, "As a sales professional, you are paid for getting the deal done. It is tempting to give the customer some additional rights and privileges in order to sell the software. However, sales people often give these away without considering the implications those terms have on the rest of the business."

Over a ten-year period, BMC Software had been fairly flexible with the terms offered to customers. With so many deals per year, each spanning from 12 to 48 months, company leaders sensed that contractual "give-aways" could have substantial impact on the company's profitability. But since no tools existed for tracking performance as a function of terms and conditions over the complete contract lifecycle, quantitative measures of these effects were difficult to obtain. "We needed to better understand the business impact of granting specific clauses, their cost to BMC, and the true value to the customer," says Poole. A number of specific metrics were not tracked. For example, how many times had specific terms and conditions been granted over the last ten years? What effect on profitability did these have? Based on that history, what should the company be willing to offer in the future?

Besides lacking metrics and tracking tools, BMC had no effective systems in place for quality management or automated workflow. The process for creating an approved contract was a series of minimally coordinated interactions among BMC Software's sales force, sales management, legal, and finance departments. "We had multiple parties in both companies involved in the negotiation process, and none of that knowledge was being captured in any systematic way," says Darrin Poole. "We needed a way to automate at least part of the process, and use our accumulated experience as a coaching tool for writing future contracts."

As the economy slowed, BMC Software found itself competing in a difficult market. "We realized that our contracting process was no longer capable of delivering the 'delight and amaze' customer experience on which our company was built," says Alex Shootman, Vice President for Americas Sales and Services at BMC. Realizing that improved quality control and accelerated contract cycles would raise profitability, company leaders launched a Contract Excellence initiative to address specific needs:

- Enable faster, easier collaboration among Sales, Finance, and Legal departments
- Establish best practices for contract structure and clauses
- Automate entry of contract data
- Help sales personnel adhere to contracting standards
- Measure and track contract performance metrics
- Standardize document workflow and approval routing

Solution

BMC Software deployed internal teams to identify how the contracting process could be improved, but soon realized that the company needed external help. That help came by way of a two-day Microsoft® Business Productivity Workshop in the summer of 2003. At that workshop, C-Lutions, LLC, a Microsoft Certified Partner specializing in program and process management applications, demonstrated its MethodSoft product. MethodSoft is a comprehensive business process automation and management system based exclusively on Microsoft technologies. These include Microsoft Office 2003 with Smart Document technology, Microsoft SharePoint® Products and Technologies, Microsoft Windows Server™ 2003 operating system, Microsoft Exchange messaging and collaboration server, Microsoft InfoPath™ information gathering program, and others, depending on customer processes.

Workshop participants concluded that BMC Software's enterprise license process took too long, relied too heavily on repetitive, manual steps, had cumbersome approval routes, and lacked consistency. C-Lutions then demonstrated specific ways its Contract Lifecycle Management (CLM) offering—a solution based on the MethodSoft product—could provide process automation and improved quality while utilizing existing

investments in Microsoft technology. "These improvements were compelling to all in attendance," says Shootman. "We saw how BMC Software could use Contract Lifecycle Management as a competitive edge in the marketplace."

A joint BMC Software/C-Lutions team was assigned to analyze, define, develop, and deploy an enterprise wide solution. The core team included 6 developers and a project manager, supported by about 15 business analysts and IT specialists. Within 90 days of project authorization, the first of four phases of CLM rolled out to key individuals in BMC Software's Sales, Legal, and Finance departments. By May 2004, Phases 2 and 3 had been deployed to all U.S. and EMEA U.K. operations. CLM 4.0, scheduled for delivery in August 2004, will provide true global functionality.

Decision for a Microsoft-based Solution

Prior to engaging C-Lutions, BMC Software had considered a number of enterprise portal solutions, including offerings from IBM and Documentum. After BMC Software leaders saw a demonstration of how Microsoft technologies could be used to automate real business processes, however, the decision to proceed with CLM was easy. Says Darrin Poole, "The Microsoft SharePoint collaboration tools were very attractive because they are so tightly integrated with Microsoft Office 2003, which is familiar to all our employees." In addition, BMC Software had settled on Microsoft Exchange as the company's messaging and collaboration server, and groups within the company were already using team sites established with Windows® SharePoint Services. "We were already far down the Microsoft path," says Poole.

A Modular Solution

The Contract Lifecycle Management solution consists of Web-accessible modules used to

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construct an automated framework for the contracting process:

- Knowledge Center (historical research and modeling)
- Configuration Center (contract creation)
- Command Center (workflow and audit)
- Performance Center (quantitative analysis)

These modules work together to connect BMC Software professionals with all the information they need to create and manage contracts more productively. Key steps in the process have been standardized by use of wizards and other online help. For example, from the Configuration Center, 1,500 BMC Software sales professionals now use a wizard to create the baseline draft contract for a new customer. Configuration Center automatically populates a contract (in Microsoft Word 2003) with pre-approved terms and conditions that adhere to BMC Software best practices, and checks business logic and legal consistency.

Microsoft Office 2003 Helps Create Standardized Contracts

With Smart Document technology provided by Microsoft Office 2003, the contract becomes much more than static text. Smart documents tie an XML-based document definition together with a set of custom actions. (XML, or eXtensible Markup Language, is a metadata definition language used to describe data in a structured open format.) Developers can build actions that display help text, ask for input using standard Microsoft Windows controls such as checkboxes and text fields, or retrieve data from other applications or back-end servers. Once the information worker enters the data necessary for a task, the smart document can look up data, format it according to the document's template, and place it in the document—all automatically.

Smoother Workflow and Collaboration Speeds Contract Approval

The first contract draft contains terms and conditions chosen from about 70 standard clauses. However, customer negotiations and contract revisions often follow in larger transactions. These steps were previously done through e-mail and voicemail. To help the Sales and Legal departments better manage the negotiation phase, the Command Center—deployed to about 200 key staff members—enables efficient change management and tracking. Finding the latest version of a document and agreeing to the routing and approval of edits had been consistent barriers to rapid execution. Now, going from first draft to final contract is much smoother with C-Lutions MethodSoft CLM technologies based on SharePoint Portal Server 2003, InfoPath information gathering program, and other Microsoft productivity tools. For example, using workgroups and document libraries available under Windows SharePoint Services, individuals can check out, edit, and check in a document under revision. "The Command Center is where we capture the interactions and team dynamics of the contracting process," says Darrin Poole, "and collaboration is now so much easier than before."

Tracking Contract Performance

Once a contract is approved and signed, new tools are available for tracking the financial performance of the contract over its lifecycle so that strategic improvements can be made in the contracting process. Believing that a business performance metric cannot be improved unless it is measured, the BMC Software and C-Lutions team designed the system to capture all relevant features of the contract—including length, terms, pricing, and special clauses—to a central Microsoft SQL Server™ 2000 database. Using a front end called the Performance Center, leaders in finance and management can query the database to measure trends as a function of

terms and conditions, as well as to monitor contract compliance. Historical contract data is also available in the Knowledge Center, so sales and other professionals can research their portfolio of previous contracts, look up legal definitions of contract terms, and request predictive models of contract performance based on past history.

Benefits

BMC Software is reaping substantial business benefits from the new CLM solution based on Microsoft technologies.

Enthusiastic Adoption, Minimal Retraining

Because workers access and share information using a Web browser and familiar Microsoft Office 2003 programs, interaction with the data stores and CLM modules is highly intuitive. BMC Senior Legal Counsel for Licensing Jeremy Aber says, "The training speed is incredible. People get comfortable very quickly."

Bill Pugh, President at C-Lutions adds, "The biggest advantage we have in deploying CLM is near universal acceptance of the Microsoft collaboration [tools]—Exchange, Office, and SharePoint Products and Technologies. With easier integration, especially with Office 2003 programs like the [Microsoft] Outlook® messaging and collaboration client, it is easier than ever before. Microsoft is really getting it right."

Contract Life Cycle Accelerates

The CLM solution has dramatically reduced the nonproductive workload for sales, finance, and legal professionals at BMC Software by giving them Web-based access to contract workflow at any time. During initial contract creation, specific terms and conditions retrieved from a SQL Server™ database are placed into the contract automatically based on responses to a wizard. This replaces the manual methods

that sales professionals previously used to create the contract, typically saving 25 percent of the time needed to create the first draft.

Revisions and approvals are done faster because routing errors and uncoordinated document editing has been eliminated. Collaboration among BMC Software's departments is much easier now that Windows SharePoint Services provides centralized team workspaces and shared document libraries. As a result, contract approvals are accomplished an average 20 percent faster, with enhanced accountability provided by fully documented audit trails.

More Uniform Contracts Recapture Lost Profits

BMC Software's sales personnel benefit directly from new tools to help them make smarter decisions during contract negotiations. Thanks to Microsoft Smart Document technology, sales professionals know that terms and clauses in their draft contracts comply with BMC Software standards and best practices. Since these are updated frequently by the Legal and Finance departments, sales representatives are relieved of having to manually incorporate the latest company standards into their contracts. Contracts are more uniform in terms and conditions, and have consistent legal language. "This solution automates and formalizes what was previously done informally and under time pressure," says Jeremy Aber. "This should give us excellent prospects for growth because it will require less training to get a new salesperson up to speed."

The effect on BMC Software's profitability is substantial. "CLM has given our sales people a tool that empowers them to be more literate, knowledgeable, and competent going into a sales negotiation," says Darrin Poole. "By making smarter decisions, they improve

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Higher Productivity Enables Profitable Growth

With the Contract Lifecycle Management solution based on Microsoft technologies, growth prospects are brighter than ever. Darrin Poole explains, "As we grow the top line of the business, we would normally have to add human resources proportionately. With the CLM solution, productivity of our contracting process is up an average of 20 percent across all related departments. We should be able to keep costs growing more slowly than our revenues—that simply means more profit."

Quick Return on Investment

BMC Software's investment in a Microsoft information technology (IT) infrastructure and the CLM solution has provided quick payback. Says C-Lutions Chief Executive Officer Tim Sparks, "There are payoffs in so many different areas: risk management, sales productivity, compliance. Any one of them would justify the investment." In fact, BMC Software has demonstrated positive ROI based solely on an accelerated "quote to cash" contract cycle. Assuming an average labor cost, time savings of just 15 minutes per person per deal would return a savings of U.S.$1.4 million annually. This is nearly equal to the investment in CLM, so payback has been achieved in approximately one year. "In most businesses, you think in terms of a three-year payback," says Darrin Poole. "So we are extremely pleased."

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